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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
) CC Docket No. 92-296
Simplification of the Depreciation)
Prescription Process)

COMMENTS

U S WEST Communications, Inc. ("U S WEST"), through counsel and in response to the Federal Communications Commission's ("Commission") Further Order Inviting Comments,¹ hereby submits its comments on the Commission's proposed basic factors ranges for depreciation purposes.

I. INTRODUCTION

In its Order, the Commission proposes to establish basic factors ranges for eight of the remaining 12 plant categories. This represents the first step in phase two of the Commission's efforts to simplify the depreciation prescription process. U S WEST supports both simplification of the depreciation prescription process and movement toward more realistic service lives.

There is no question that the Commission's proposed ranges simplify the depreciation process -- if a local exchange carrier ("LEC") selects future net salvage

¹In the Matter of Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, Further Order Inviting Comments, FCC 94-256, rel. Oct. 11, 1994 ("Order").

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and projection life estimates that fall within the Commission's proposed ranges.²

But that is the problem. Many of the proposed ranges encompass service lives that are unrealistically high.³ Without further reductions in the low end of many of the proposed ranges, the Commission will not be able to achieve its joint goals of simplifying the depreciation process, achieving administrative savings, and allowing price cap LECs greater flexibility.⁴

A major cause of basic factors ranges that are too high is the Commission's use of one standard deviation from the mean of the projection life of each category to establish preliminary ranges.⁵ Without further modification, this approach ensures that a significant number of LECs will have basic factors that fall outside prescribed ranges.⁶ A related, but equally important, issue is the fact that a LEC may not take advantage of the Commission's simplified depreciation procedures to adopt factors within the prescribed range for a given account if the LEC currently employs factors outside the prescribed range. For example, U S WEST currently

²Order ¶ 2, n.6.

³U S WEST abandoned the use of "regulated" lives for financial reporting purposes in 1993 when it discontinued using Financial Accounting Standard ("FAS") No. 71. This resulted in a \$3.2 billion after-tax charge (a pre-tax charge of \$5.1 billion) associated with adopting shorter, market-based asset lives. This change ensures that U S WEST's financial reports will provide a more accurate reflection of the value of U S WEST's assets and their respective depreciation lives (see U S WEST's Petition for Reconsideration filed herein Dec. 6, 1993, at 4-6). Bell Atlantic has also discontinued using FAS No. 71 and incurred a similar charge in 1994 (see Communications Daily, Aug. 16, 1994, at 1).

⁴Order ¶ 2.

⁵Id. ¶ 4.

⁶Thus, LECs that have already received Commission authorization for factors outside the prescribed range may not be able to take advantage of the simplified depreciation procedure.

uses a 12-year life for the Circuit-DDS account for the North Dakota study area. To move into the projection life range of 7-11 years the Commission has established to qualify for simplified treatment,⁷ U S WEST must first conduct a comprehensive depreciation study for this account.⁸ The Commission has already determined that a reasonable range of life for Circuit-DDS equipment is 7-11 years. It makes no sense to require a comprehensive study to move from a 12-year life to an 11-year life when a company within the approved range can use streamlined procedures to move from an 11-year to a 7-year life. U S WEST will not belabor these points since they are topics already under reconsideration of an earlier order.⁹ However, it is clear that the benefits of depreciation will continue to be limited without further action by the Commission.

⁷See In the Matter of Simplification of the Depreciation Prescription Process, Second Report and Order, 9 FCC Rcd. 3206, 3211 Appendix B (1994).

⁸There is a significant difference in the amount of work required to satisfy the Commission's requirements for an account that qualifies for simplified treatment versus one that does not. Only five exhibits are required to be filed for accounts which qualify for simplified treatment: Account Index; Rate Development Sheet; Generation Arrangement; Average Net Salvage Development; and Table A data (*i.e.*, only five years of history) (*see* Federal Communications Commission Depreciation Study Guide 1995). If a complete study is required, the following exhibits must also be provided: Narrative; Projection Life Table/Remaining Life Development; Curve Shape Analysis Plot; Life Indications Plot (*i.e.*, worm chart); Summary of Mortality Analysis Retirement; Graduation; Table B; Retirement Ratios; Account Investment Summary; Account Reserve Summary; and a Reconciliation Sheet (*id.*). U S WEST estimates that it requires an additional 20 hours per account per study area to conduct a comprehensive depreciation study. This represents a significant cost difference to a company such as U S WEST which serves a large number of study areas.

⁹See Petition for Reconsideration of the United States Telephone Association filed herein Dec. 3, 1993, at 9-11.

II. PROPOSED RANGES

In light of the foregoing, U S WEST now comments on the Commission's specific proposals.

A. Buried Cable - Metallic

The Commission proposes a life range of 20-26 years for Buried Cable.

U S WEST is of the opinion that the low end of this range is realistic and consistent with the current state of technology and competition in the industry. However, it is likely that this range will need to be re-addressed in the future as networks continue to evolve.

B. Digital Switching

The Commission's proposed range of 16-18 years for Digital Switching is unrealistically high. Digital switches are quite different from analog and electro-mechanical switches and are made up of individual modules. These modules can be replaced as new technology becomes available. As a result, the modules or functional components have different service lives. The major functional components of a digital switch are: central processor/memory; switching fabric; trunk interfaces; digital loop carrier interfaces; baseband line interfaces; and the shell.¹⁰ Not surprisingly, the central processor has the shortest life, and the

¹⁰See L.K. Vanston, Technologies Futures, Inc., Transforming the Local Exchange Network, Ch. 1, (1994), for a further discussion of digital switch components and their respective service lives.

common components, or the shell, have the longest life. Vanston's analysis finds a composite Average Remaining Life ("ARL") for a digital switch of 7.0 years -- with an ARL of 5.0 years for the processor and 14.3 years for the shell.¹¹

Both U S WEST's and industry analyses support the use of a composite ARL of 7.0 years for digital switching. For U S WEST this equates to a Projection Life of approximately 10 years. A 10-year Projection Life is far outside the Commission's proposed range of 16-18 years for digital switching. At a minimum, the Commission should reduce the lower end of its range to 10 years, if not modify the entire range. The current range is unrealistic and fails to recognize the significant differences between digital switches and earlier generations of analog and electromechanical switches.

C. Circuit Equipment - Digital

The Commission proposes a range of life for Circuit Equipment - Digital of 11-13 years. U S WEST believes that this range is a little on the high side. A more appropriate boundary for the lower end of the range would be no higher than 10 years. With the continuing evolution to fiber transport and the transition to SONET standards, much of the existing equipment in this category will have to be replaced in the near future. Furthermore, industry research shows that a Projection Life of less than 11 years is realistic for non-SONET circuit equipment.¹²

¹¹Id.

¹²See Vanston, Kravitz and Lenz, Technologies Forecasting, Inc., Average Projection Lives of Digital Switching and Circuit Equipment, at 37-39 (1992).

D. Aerial Cable - Metallic

The Commission proposes a range of life for Aerial Cable - Metallic of 20-26 years, the same as it proposed for Buried Cable - Metallic. U S WEST's experience supports a reduction in the lower band of this range to 15 years or less. The mortality of Aerial Cable is significantly higher than that of Buried Cable as a result of exposure to the elements. Historically, U S WEST has found that the life of Aerial Cable is approximately 25 percent shorter than Buried Cable.¹³ As such, U S WEST recommends the Commission modify its proposed range for Aerial Cable to 15 years.

III. CONCLUSION

The Commission should modify its basic factors ranges as discussed above. U S WEST urges the Commission to take action on the proposed changes to the depreciation process at the earliest possible date -- but no later than mid-January 1995. Such expeditious action by the Commission would allow all companies

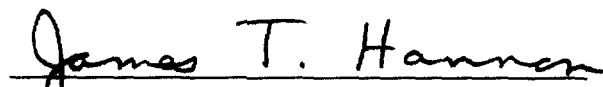
¹³See Dean Tyler, Bob Fahl, and Kevin MacWilliams, Asset Life Estimates: A U S WEST Case Study, 2 New Telecom Quarterly 6, 11 (1994).

scheduled for represcription during 1995 to take advantage of any simplified procedures the Commission may adopt.

Respectfully submitted,

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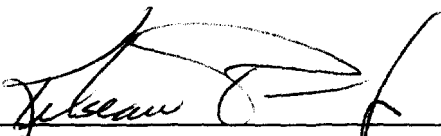
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November 14, 1994

CERTIFICATE OF SERVICE

I, Kelseau Powe, Jr., do hereby certify that on this 14th day of November, 1994, I have caused a copy of the foregoing **COMMENTS** to be served via hand-delivery upon the persons listed on the attached service list.


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